FINANCIAL INSTITUTIONS COMMISSION

ANNUAL REPORT 2003/2004

BRITISH COLUMBIA

ANNUAL REPORT 2003–2004

FINANCIAL INSTITUTIONS COMMISSION

- Superintendent of Financial Institutions
- Superintendent of Pensions
- Superintendent of Real Estate
- Registrar of Mortgage Brokers
- Credit Union Deposit Insurance Corporation

BRITISH COLUMBIA

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Introduction

FICOM's annual report is published to provide citizens, stakeholders and researchers with information about both the regulation of financial services in British Columbia and the effectiveness of FICOM as a financial services regulator.

Under the *Budget Transparency and Accountability Act*, the Government of British Columbia's Treasury Board sets guidelines for service plans and annual reports prepared and published by government organizations.

All service plans must present organizational goals and identify performance measures for tracking the achievement of these goals. They are published in tandem with the BC government's budget – which is customarily ..troduced to the legislature in February – in advance of the corresponding fiscal year.

Annual reports subsequently address the organization's performance in reaching service-plan-identified goals and must be published by August 31 following the fiscal year.

This schedule causes an overlap in service plans and annual reports. When annual reports are released, they correspond to the service plan that was published approximately eighteen months prior, and not the service plan that was published immediately prior.

This annual report covers the activities of FICOM in its 2003/2004 fiscal year - the period April 1, 2003, through March 31, 2004.

Vision

To be the most progressive and cost-effective regulator in Canada of financial services, pensions, and real estate services: protecting the public interest, keeping pace with industry change, and leading effective regulatory reform.

Mission

Maintain confidence in British Columbia's financial services sector by effective regulation.

Values

Our actions are guided by the following values:

Effectiveness – We focus on obtaining results, even when they are difficult to measure, rather than on activities. We anticipate problems before they arise and address them in a timely manner.

Integrity – We value honesty, cooperation, transparency, reliability, fairness and respect within the workplace and demonstrate these qualities in the exercise of our regulatory function.

Professionalism – We take pride in the quality of our work and continually strive to improve ourselves by seeking knowledge, revising our methods and providing innovative solutions.

Accountability – We are accountable for the decisions we make.

FICOM Commissioners

Chair	J. Stewart Cunningham
Commissioner	Paul Taylor (ex officio)

FICOM Executive Management

CEO of FICOM	W. Alan Clark
Deputy Superintendent, Credit Unions and Trusts	Garry E. Wadham
Deputy Superintendent, Insurance	Michael Grist
Deputy Superintendent, Pensions	vacant
Deputy Superintendent, Real Estate and Deputy Registrar, Mortgage Brokers	L. Jay Mitchell
Executive Director, Investigations	Kenneth J. Fraser
Executive Director, Strategic Initiatives and Operational Planning	John I. Nunez

Note: All positions listed effective March 31, 2004.

Quick Facts:

- Sixty-one credit unions were authorized to conduct business in the province as of March 31, 2004. The BC credit union system's total assets at the end of 2003 were $29 billion.
- Five provincial trust companies and forty-five extra-provincial trust companies were authorized to conduct business in British Columbia as of March 31, 2004. These companies had total deposits of $6.2 billion and total assets under administration of $107.6 billion.
- The insurance market in British Columbia is the third-largest in Canada. At March 31, 2004, a total of 243 insurers were authorized to operate in British Columbia by FICOM. Insurance premiums written in British Columbia last year were $4.77 billion, exclusive of the Insurance Corporation of British Columbia.
- British Columbia-supervised pension plans had 469,943 active members and 171,926 pensioners as reported up to December 31, 2003. Total pension plan assets were $60.2 billion.
- As of March 31, 2004, British Columbia had 494 mortgage broker companies, employing 1,775 sub-mortgage brokers at 645 locations throughout British Columbia. They were authorized to broker residential and commercial mortgages to financial institutions, pension plans and private lenders.
- During 2003/2004, FICOM had 14 full-time staff dedicated to investigative functions. FICOM investigates statutory breaches of all statutes administered by FICOM, as well as related criminal matters.

Report of the Commission Chair

May 5, 2004

As the Chair of the Financial Institutions Commission, I am pleased to report on another year when FICOM showed itself to be a diligent and prudent regulator.

Four new Commissioners were recently recruited. As I am writing this, we have just learned of the appointment of the following Commissioners by the Provincial Government: Mr. W. John Dawson, Ms. Vickie McDonnell, Ms. Janet Pau and Mr. David Scott.

These appointments follow a merit-based appointment process under the *Administrative Tribunals Act*. The strength of these new Commissioners' professional backgrounds and their varied perspectives ensure that knowledgeable and objective individuals make the important decisions of the Commission regarding credit unions, insurers, trust companies and credit union deposit insurance. Sound governance and oversight by FICOM of financial institutions is a critical component of confidence in British Columbia's financial services sector. I would like to extend a warm welcome to these new Commissioners and look forward to working with them over the next year.

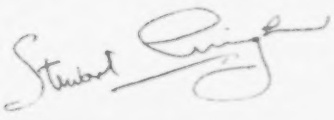
The legislative review of financial institutions and their agents has just been completed. Under the *Financial Institutions Statutes Amendments Act*, the governance of FICOM will change, with the role of Commissioners being expanded. The Commission will now make many decisions previously referred to the Minister of Finance and will directly appoint the Superintendent of Financial Institutions.

This new legislation, which follows a well-administered consultation process, will also effect many changes to the regulatory system, including:

- Provisions for the extra-provincial operation of credit unions;
- Greater harmonization of market conduct regulation for insurers within Canada; and,
- The streamlining of solvency regulation for insurers.

This past year also saw the Fund Size Committee complete its review of the deposit insurance fund's size requirement. This Committee was originally struck in 2000 to review the fund size and advise the FICOM Commissioners – who are responsible for CUDIC's deposit insurance assessments – on a specific target size.

I would like to close on a personal note and wish Mr. Leon de Wet - the Deputy Minister of Finance's designate on the FICOM Board for a number of years - every happiness and success as he moves to new challenges in Australia. His years of service as the Ministry of Finance representative on the FICOM Board have occurred at a time of considerable change in financial services regulation and he has provided the FICOM Commissioners with much valuable insight and assistance during this time.



J. Stewart Cunningham
Chair, Financial Institutions Commission

Statutes That FICOM Administers

Credit Union Incorporation Act
This statute provides a corporate governance framework for credit unions consistent with their co-operative characteristics.

Financial Institutions Act
This statute provides a regulatory framework to govern all provincially regulated financial institutions, including trust companies, insurance companies and credit unions. It also provides the licensing and regulatory framework for insurance agents, salespersons and adjusters under the supervision of the Insurance Council of British Columbia. The statute further provides for credit union deposit insurance.

Insurance Act
This statute provides certain statutory requirements for insurance-related contracts.

Insurance (Captive Company) Act
This statute establishes British Columbia as a domicile for captive insurance companies and provides a registration and regulatory framework for captive insurance companies.

Insurance (Marine) Act
This statute provides certain statutory requirements for contracts of marine insurance.

International Financial Business Act *
This statute establishes a licensing and regulatory framework for financial institutions to register in British Columbia to carry on international financial business.

*This statute is expected to be repealed by the legislature in 2004 and replaced with the *International Financial Activity Act*. FICOM will not administer this new legislation.

Mortgage Brokers Act
This statute provides a registration and regulatory framework for mortgage brokers.

Pension Benefits Standards Act
This statute provides a supervisory framework and minimum standards for provincial pension plans in British Columbia.

Real Estate Act *
This statute has two parts. Part 1 provides the licensing and regulatory framework for real estate agents, salespersons and property managers under the supervision of the Real Estate Council of British Columbia. Part 2 provides a regulatory framework for the sale of sub-divided land, including strata developments, co-operatives, shared interests and time shares.

*This legislation is expected to be replaced by two new statutes – the *Real Estate Services Act* and the *Real Estate Development Marketing Act* – to be introduced in the Spring 2004 legislative sitting.

Strata Property Act
This statute provides a framework for the development, governance and management of strata corporations.

Report of the CEO

May 5, 2004

It is my pleasure, as CEO of FICOM, to present the annual report covering fiscal year 2003/04.

FICOM's service plan sets out what FICOM hopes to accomplish in the coming year. Our annual report measures how we achieved the goals we set for ourselves. I believe FICOM must be accountable to its stakeholders and transparent in its operations. This report is an important step in achieving that objective.

This past year has seen the government introduce the new *Real Estate Services Act* and *Real Estate Development Marketing Act*. Both statutes will impact FICOM operations by streamlining regulatory requirements and augmenting enforcement authority. FICOM's Real Estate department has been instrumental in creating this statute, and has changed its procedures to accommodate the new statutes.

This past year has also seen the government complete its review of the *Financial Institutions Act* and the *Credit Union Incorporation Act*. I look forward to FICOM utilizing the improvements to the statutes suggested in this review.

FICOM continues to implement our risk-based supervisory framework for financial institutions and, simultaneously, consult with the financial services sector. Staff from the Credit Union and Trusts department and I made a number of presentations on FICOM's new risk-based approach to supervision and the risks faced by B.C. credit unions.

Credit union and insurance groups responded well to our new supervisory framework, and I believe FICOM's efforts to improve its regulation have broad support in these industries.

The Pension Standards Branch became part of FICOM on April 1, 2003, and is now fully integrated. The past year saw changes to the regulation of Life Income Funds, and we have begun the development of a risk-based framework for pension regulation.

Staff of FICOM drafted a new values statement that better reflected how we do our jobs. I believe the values of effectiveness, integrity, professionalism and accountability best articulate how we serve the public of British Columbia.

I wish to thank our staff for their enthusiastic and skilled contribution to this organization, and reiterate my pleasure in the progress we have made throughout the year. I encourage everyone to review our annual report and website for more information on FICOM.

W. Alan Clark
CEO

FICOM's Role and Responsibilities

The *Financial Institutions Act* establishes FICOM. As a government organization within the Ministry of Finance, FICOM is assigned responsibility for administering ten statutes.

FICOM has a complement of approximately 90 staff hired under the *Public Service Act* and is headed by a CEO. At the present time, the CEO is concurrently appointed as Superintendent of Financial Institutions, Superintendent of Pensions, Superintendent of Real Estate, Registrar of Mortgage Brokers and CEO of the Credit Union Deposit Insurance Corporation ("CUDIC") under the corresponding legislation.

Authorized Companies

Names and addresses of all financial institutions that are authorized by the provincial government to conduct business in British Columbia are listed on FICOM's website.

Under the FIA, FICOM has up to eleven commissioners appointed by the Lieutenant Governor in Council on the recommendation of the Minister of Finance.

The commissioners have defined roles under the *Financial Institutions Act* and *Credit Union Incorporation Act*. These include:

- Recommendations to the Minister of Finance on major regulatory decisions related to incorporations, business authorizations, amalgamations, liquidations and windups; and
- Decisions on credit union stabilization, supervision and deposit insurance.

Credit Ratings for Credit Union Central of B.C.

Dominion Bond Rating Service issued a Credit Rating Report on January 8, 2004, with the rating for medium- and long-term senior notes and deposits being held at "A", with a stable outlook.

Standard and Poor's issued a Credit Rating on March 1, 2004, with the senior unsecured debt rated "A+" and commercial paper rated "A-1".

Both ratings agencies noted the strong capital and liquidity positions of the B.C. credit union system.

Commissioners have no legislative responsibilities with respect to the other statutes administered by FICOM, and some responsibilities under the *Financial Institutions Act* and *Credit Union Incorporation Act* are assigned directly to the Superintendent of Financial Institutions.

Commissioners also serve as directors of CUDIC unless otherwise directed by the Minister of Finance.

BC Government Reviews the Financial Institutions Act and Credit Union Incorporation Act

Following its review of the financial services sector regulatory framework, the B.C. government issued a consultation paper in November 2003 entitled "Proposed Significant Regulatory Changes."

This paper, and responses to it from stakeholders, formed the basis of legislative changes included in the *Financial Institutions Statutes Amendments Act* that was prepared during the year. The key changes include:

Regulatory Framework

- Provide that only federally incorporated, deposit-taking trust companies can be authorized to do business in the province.
- Enhance the current approach to the regulation of extra-provincial insurance corporations by placing greater reliance on the primary regulator for solvency regulation.
- Make British Columbia's market conduct rules more consistent with standards in place throughout Canada.

Regulatory Roles and Responsibilities

Under the FIA, the Commission will become the primary regulatory authority for financial institutions operating in the province with provisions to delegate authority to the Superintendent. Previously, the Minister, Commission and Superintendent had separate, defined responsibilities under the FIA.

Compliance

The enforcement framework will be enhanced, including added powers for the Commission and Insurance Council of British Columbia.

Extra-Provincial Operation of Credit Unions

A credit union incorporated in British Columbia will be allowed to operate extra-provincially, subject to the laws of the other jurisdiction.

Consumer Issues

- The bundling of financial products will be permitted.
- Coercive tied-selling will be prohibited.
- Licensing exemptions for certain insurance products, such as the sale of motor vehicle warranty insurance by motor vehicle dealers, travel insurance by travel agents, and the sale of credit insurance by contracted representatives of financial institutions will be reviewed and streamlined.

Core Business Areas and Organization of FICOM

FICOM has four core business areas:

Credit Unions and Trusts
FICOM regulates credit unions and trust companies under the *Financial Institutions Act and Credit Union Incorporation Act*, and provides deposit insurance for credit unions through the Credit Union Deposit Insurance Corporation.

Insurance
FICOM regulates insurers under the *Financial Institutions Act*, and administers the *Insurance Act*, *Insurance (Captive Company) Act*, *Insurance (Marine) Act*, and the *International Financial Business Act*. The *International Financial Business Act* is expected to be repealed in 2004 under the *International Financial Activity Act*.

The Insurance Council of B.C. is responsible for licensing insurance sales agents and adjusters.

Pensions
FICOM regulates pension plans registered in British Columbia under the *Pension Benefits Standards Act*.

Real Estate and Mortgage Brokers
FICOM is responsible for regulatory activities under the *Mortgage Brokers Act*, *Real Estate Act* and *Strata Property Act*. The Real Estate Council of B.C. has been delegated the Superintendent of Real Estate's regulatory responsibility for real estate agents and salespersons, property managers, and strata managers. New legislation, the *Real Estate Services Act* and the *Real Estate Development Marketing Act*, are expected to be proclaimed later in 2004 and replace the *Real Estate Act*.

Financial Services Tribunal

In October 2003, the government enacted the *Commercial Appeals Commission Repeal Act*, 2003. Upon proclamation, it replaces the Commercial Appeals Commission with the Financial Services Tribunal.

The Financial Services Tribunal - a separate body - will be administered by FICOM starting in Summer 2004.

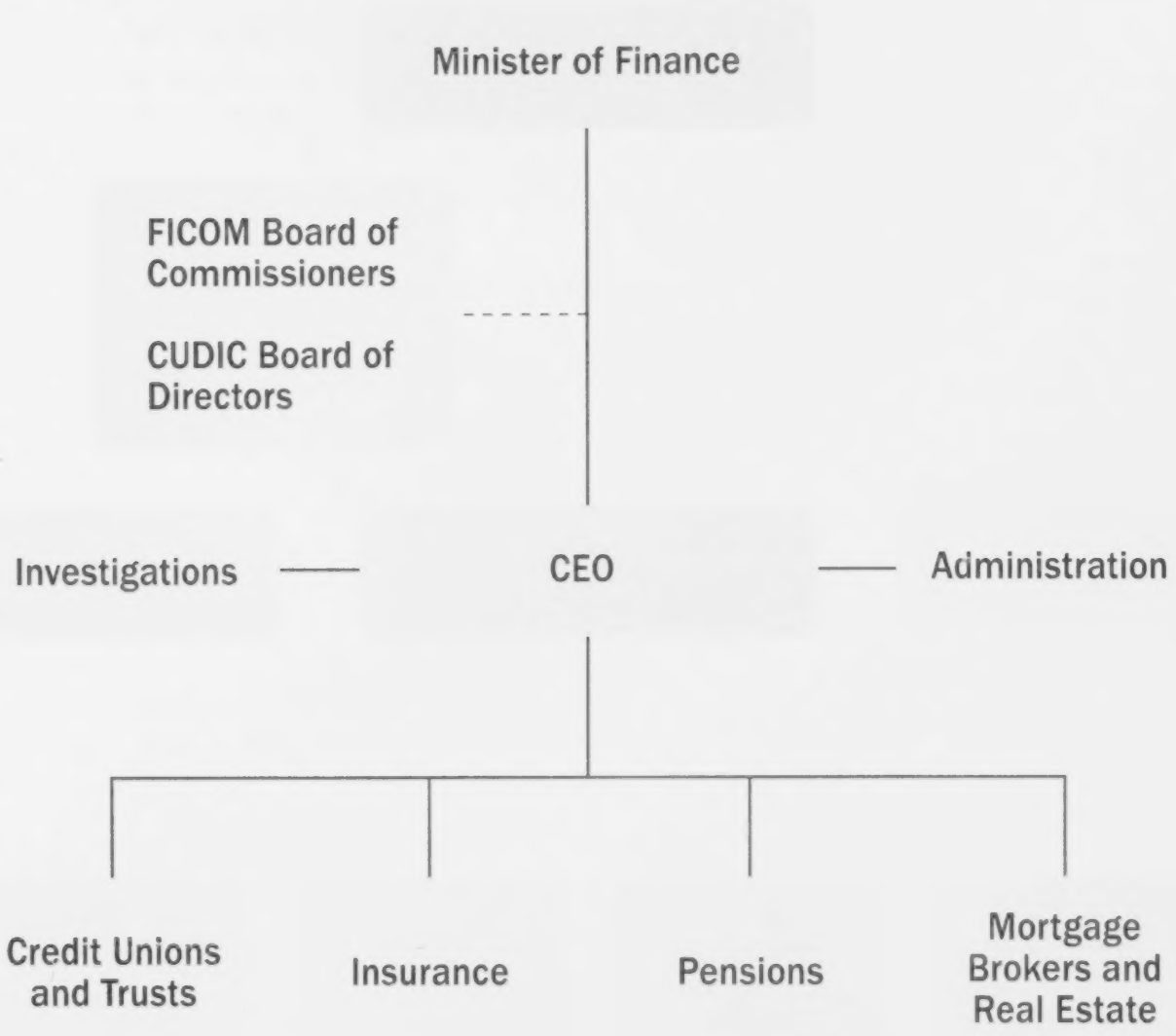
The FST will hear appeals of decisions by the Registrar of Mortgage Brokers, the Real Estate Council, the Insurance Council, the Superintendent of Pensions and certain decisions of the Superintendent of Financial Institutions.

The FST will streamline appeals by considering only written material, and by having cases decided by single members.

Support Functions – Investigations and Administration
The Investigations department investigates significant statutory breaches of all acts administered by FICOM, and undertakes investigations into related criminal matters, such as fraud.

The following departments provide the administrative support for FICOM's core business areas: Records, Systems, Accounting, Strategic Initiatives and Operational Planning, and the CEO's office. These departments provide a wide variety of services including records management, reception, communications, systems support, accounting, budgeting, purchasing, freedom of information requests, policy research, legislative reviews, performance planning and reporting, strategic human resources management, and executive secretarial support.

Organizational Chart



Service Plan Report

FICOM identified 12 organizational goals in its service plan for the year 2003/2004. Five of these goals were categorized as regulatory responsibilities, and seven were categorized as strategic objectives.

Regulatory Responsibilities

1. Effectively regulate financial institutions authorized to conduct business in British Columbia.
2. Effectively regulate provincial pension plans.
3. Ensure regulatory compliance by real estate developers, real estate agents and salespersons, property managers and mortgage brokers.
4. Identify and pursue inappropriate, unauthorized, and criminal activity involving the financial services sector.
5. Effectively manage the Credit Union Deposit Insurance Corporation (CUDIC) fund.

Strategic Objectives

1. Eliminate unnecessary regulatory burden on institutions.
2. Streamline and harmonize regulations with other jurisdictions.
3. Provide information to assist the public in detecting fraudulent or other inappropriate business practices.
4. Develop a human resources plan to resolve staffing issues and recruitment problems.
5. Develop and implement new information systems to meet FICOM's information needs as a risk-based regulatory framework is introduced.
6. Review current real estate- and mortgage broker-related fees.
7. Design and implement a comprehensive system of performance measures that specifies output, outcome and efficiency measures for the organization's core business areas.

Life Income Fund Restrictions Reduced

Following concerns that existing pension regulations covering Life Income Funds were too restrictive, the B.C. government updated these regulations.

Pension holders who leave an employer and its pension plan before retirement may transfer their pension into a locked-in RRSP. Upon retirement, the funds are transferred into a Life Income Fund (LIF) with a maximum annual withdrawal restriction.

Under the old regulations, when a pensioner reached 80 years of age, he or she had to convert the LIF to an annuity from a life insurance company. Now, the requirement to purchase an annuity has been removed, and a higher maximum annual withdrawal has been approved.

Under these updated regulations, pensioners have better access to their funds.

A table for each organizational goal has been prepared by FICOM to report on the status of these goals relative to the identified timelines and related performance measures.

A discussion of key issues follows each table.

Organizational Goal 1: Effectively regulate financial institutions authorized to conduct business in British Columbia.

Performance Measure	2002-2003	2003-2004	Comments
Survey of Consumer Confidence – 75% confident in regulated institutions.	No survey conducted.	Survey data suggests that the target of 75% has been met.	See discussion of surveys.
Survey of Financial Institutions – 75% fair treatment by regulator.	No survey conducted.	Survey data suggests that the target of 75% has been met.	See discussion of surveys.
Migrate from compliance-based framework to a risk-based framework.	Implementation of risk-based supervisory framework commenced.	Implementation of risk-based supervisory framework completed with evaluation ongoing.	See discussion of risk-based framework.
Cost of regulation per $1,000 of insurance premium.	$0.461 per $1,000.	$0.446 per $1,000.	A modest decrease in regulatory fees. See calculations on following pages.
Credit Union fees and assessments per $1,000 of assets	Fees and assessments of $0.270 per $1,000 of assets.	Fees and assessments of $0.092 per $1,000 of assets.	A modest decrease in regulatory fees. No deposit insurance assessment was made. See calculations on following pages.
	Deposit insurance assessment of two basis points.	No deposit insurance assessment.	No deposit insurance assessment pending Size of Fund Committee's report.

Discussion:

Surveys – Confidence in Financial Institutions

A survey of consumer confidence was conducted in September 2003 by a major public-opinion research firm. The margin of error for the survey was plus or minus 3.5 percent, 19 times out of 20.

Subject to the restrictions of sampling and statistical inference, it identified that 87 percent of British Columbians have confidence in the solvency of credit unions, while 89 percent are confident in the market conduct of credit unions. These findings suggest that the target of 75 percent confidence for credit unions has been met.

For insurance companies, it identified that 81 percent of British Columbians have confidence in the solvency of insurance companies, while 77 percent have confidence in the market conduct of insurance companies. These findings suggest that the target of 75 percent confidence for insurance companies has been met. The survey did not address confidence in trust companies.

Surveys – Fair Treatment by Regulator

A limited survey of financial institutions was conducted in 2003/2004 by FICOM staff. The response rate for credit unions was greater than that for insurance companies and trust companies. For credit unions, 90 percent indicated that they felt fairly treated by the regulator. For insurance companies, 100 percent felt fairly treated by the regulator.

This survey suggests that the target of 75 percent fair treatment was met; however, the survey was not statistically robust and FICOM is evaluating alternative ways to gauge industry views.

Risk-Based Framework

FICOM completed the migration to a risk-based supervisory framework, with four notable activities undertaken:

1) **Development of Supervisory Procedures and Processes**

   FICOM developed guidelines and templates for the use of staff when applying the new risk-based supervisory framework. FICOM's use of a uniform system of procedures and processes ensures that the new framework is applied consistently to all regulated institutions.

   FICOM staff completed monitoring reports and assessments for all institutions on an ongoing basis. These reports provide up-to-date data and enable ongoing assessment of risk, including both positive and negative variance.

2) Professional Training

FICOM staff received more professional training on the new risk-based supervisory approach. A one-week seminar was delivered to FICOM staff by the Government of Canada's Office of the Superintendent of Financial Institutions. The seminar was specific, well-delivered and highly applicable to the regulation of provincial financial institutions in British Columbia. FICOM staff received it very well.

3) Implementation of Risk-based Supervisory Framework

The implementation of FICOM's new risk-based supervisory system is ongoing. FICOM is pleased with the implementation to-date; evaluation and refinement are continuing.

FICOM issued Risk Assessment Reports to all credit unions and provincial trust companies that received on-site reviews in 2003. These reports identify the areas of risk that are of concern to FICOM with these institutions. FICOM has fully implemented risk-based solvency reviews for all provincial insurance companies.

In response to receiving its report, a financial institution is required to identify steps/programs that it will introduce to mitigate identified risks. FICOM monitors these actions by the financial institution.

4) Supervisory Framework Presentations

Several presentations on FICOM's Risk-based Supervisory Framework and risk management practices were made to credit union peer groups by FICOM staff in 2003/04. These presentations were well-received and assisted in identifying for financial institutions the responsibilities of corporate directors and senior management for ongoing risk management.

Cost of Insurance Regulation

FICOM tracks the cost of insurance regulation by comparing FICOM's insurance fees to the total premiums written in the Province of British Columbia. The calculation of this performance measure is shown below.

Calculation of Insurance Regulation Costs – 2001/2002

Insurance Fees – 2001/2002 Budget	$ 2,117,000
divided by Total Premiums Written in B.C. – 2001	$ 4,240,000,000
Equals	$ 0.000499
Multiplied by $1,000	$ 0.499

Calculation of Insurance Regulation Costs – 2002/2003

Insurance Fees – 2002/2003 Budget	$ 2,081,000
divided by Total Premiums Written in B.C. – 2002	$ 4,514,000,000
Equals	$ 0.000461
Multiplied by $1,000	$ 0.461

Calculation of Insurance Regulation Costs – 2003/2004

Insurance Fees – 2003/2004 Budget	$ 2,127,000
divided by Total Premiums Written in B.C. – 2003	$ 4,767,000,000
Equals	$ 0.000446
Multiplied by $1,000	$ 0.446

Cost of Credit Union Regulation and Deposit Insurance

FICOM tracks the cost of credit union regulation by comparing FICOM's credit union fees and CUDIC's deposit insurance assessments to the total assets of BC credit unions. The calculation of this performance measure is shown below.

Calculation of Credit Union Regulation and Deposit Insurance Costs – 2001/2002

Regulation	
Total FICOM Credit Union Fees Budget – 2001/2002	$ 2,421,270
Total Credit Union Assets – Dec. 2001	$ 25,150,268,391
Fees divided by Assets	$ 0.0000963
Multiplied by $1,000	$ 0.096
Deposit Insurance	
Total CUDIC Assessments – 2001/2002	$ 4,317,449
Total Credit Union Assets – Dec. 2001	$ 25,150,268,391
Assessments divided by Fees	$ 0.0001717
Multiplied by $1,000	$ 0.172
Total Fees and Assessments per $1,000 of assets	$ 0.268

Calculation of Credit Union Regulation and Deposit Insurance Costs – 2002/2003

Regulation	
Total FICOM Credit Union Fees Budget – 2002/2003	$ 2,568,744
Total Credit Union Assets – Dec. 2002	$ 26,640,532,762
Fees divided by Assets	$ 0.0000964
Multiplied by $1,000	$ 0.096
Deposit Insurance	
Total CUDIC Assessments – 2002/2003	$ 4,628,392
Total Credit Union Assets – Dec. 2002	$ 26,640,532,762
Assessments divided by Fees	$ 0.0001737
Multiplied by $1,000	$ 0.174
Total FICOM Credit Union Fees and CUDIC Assessments per $1,000 of assets	$ 0.270

Calculation of Credit Union Regulation and Deposit Insurance Costs – 2003/2004

Regulation	
Total FICOM Credit Union Fees Budget - 2003/2004	$ 2,664,000
Total Credit Union Assets – Dec. 2003	$ 29,016,624,019
Fees divided by Assets	$ 0.0000918
Multiplied by $1,000	$ 0.092
Deposit Insurance	
Total CUDIC Assessments – 2003/2004	$ nil
Total Credit Union Assets – Dec. 2003	$ 29,016,624,019
Assessments divided by Fees	$ –
Multiplied by $1,000	$ –
Total FICOM Credit Union Fees and CUDIC Assessments per $1,000 of assets	$ 0.092

Organizational Goal 2: Ensure regulatory compliance by real estate developers, real estate agents and salespersons, property managers and mortgage brokers.

Performance Measure	2002-2003	2003-2004	Comments
Investigate all complaints of non-compliance and/or criminal activities.	100% investigated.	100% investigated.	Additional information on FICOM's investigative activities is included in the Operational Statistics section.

Organizational Goal 3: Identify and pursue inappropriate, unauthorized and criminal activity involving the financial services sector.

Performance Measure	2001-2002	2002-2003	Comments
All complaints/activities requiring investigation are reviewed.	100% investigated.	100% investigated.	Additional information on FICOM's investigation activities is included in the Operational Statistics section.

Organizational Goal 4: Effectively manage the Credit Union Deposit Insurance Corporation.

Performance Measure	2002-2003	2002-2003	Comments
Fund Size Committee to report on appropriate size.	Fund Size Committee had not reported.	Fund Size Committee issued preliminary conclusion.	See discussion below.
Review performance of CUDIC investment managers.	Review initiated.	Review completed.	See discussion below.

Discussion:

Fund Size Committee

The Fund Size Committee was formed in 2000 to review the required size of the deposit insurance fund. It was composed of representatives from FICOM, Stabilization Central Credit Union and Credit Union Central of British Columbia, and was assisted by a professional actuary. While FICOM/CUDIC Board of Directors is responsible for determining the appropriate target size of the deposit insurance fund, the composition of the Fund Size Committee reflected the desire for stakeholder input.

Specifying the size of the CUDIC fund is a challenging issue because actuarial forecasts are complex and ultimately only represent "estimates" of a given fund's adequacy. Moreover, in the specific case of the deposit insurance fund, there are a number of salient issues:

- Assessments against credit unions represent a significant operating cost.
- A strong fund ensures depositor protection.
- The Province of British Columbia provides backing for the fund and any liability must be judiciously managed.

The preliminary conclusions of the Fund Size Committee on the appropriate size of the deposit insurance fund were issued on September 18, 2003. The Committee identified a new fund size target of 0.85% (85 basis points) of total credit union deposits.

In January 2004, the FICOM representative on the Fund Size Committee released a background report on how the preliminary conclusions were reached and the actuarial calculations involved.

Performance of CUDIC Investment Managers

A thorough review of the performance of CUDIC investment managers was completed by FICOM.

FICOM staff identified that one of the two contracted investment managers had not met, by a narrow margin, the required standard detailed in the existing CUDIC Investment Policy for the period of the review. In addition, FICOM staff identified several opportunities to improve the CUDIC Investment Policy.

Following this review, the CUDIC Board of Directors hired an investment consulting firm to recommend a new investment policy for the CUDIC fund. This firm was hired through a Request for Proposals (RFP) public tendering process. This RFP required that the recommended investment policy address a number of issues, including:

- The appropriate asset allocation for the fund;
- Performance benchmarks for investment managers; and,
- A system for disciplining investment managers that do not meet performance standards.

As of March 31, 2004, the CUDIC Board of Directors had not adopted a new investment policy, but is anticipated to do so early in the coming fiscal year.

The CUDIC fund has had an enviable average investment return since 1990.

Organizational Goal 6: Eliminate unnecessary regulatory burden on institutions.

Performance Measure	2002-2003	2003-2004	Comments
Review and rewrite the *Financial Institutions Act*.	Three major activities undertaken.	Review of the *Financial Institutions Act* completed; Review of *Real Estate Act* completed.	See discussion below.

Discussion:

When a legislative review is undertaken that involves a non-budget related statute for which the Ministry of Finance is responsible, the Ministry of Finance's Financial and Corporate Sector Policy Branch leads the review.

FICOM is actively involved in all legislative reviews that involve statutes administered by FICOM.

In the case of this review of the *Financial Institutions Act*, FICOM participated in the consultation process and provided its own briefings on the policy issues raised. FICOM also participated in briefings to the Minister and was actively involved in reviewing draft legislation.

The review of the *Financial Institutions Act* was completed on schedule. The review of the *Real Estate Act* was initiated subsequent to the release of FICOM's 2003/04 service plan. This review was also completed in a timely manner.

Review of the Financial Institutions Act

This legislative review resulted in a number of legislative refinements and modifications to the existing regulatory framework. As detailed elsewhere in this report, the key changes include:

- A new requirement that only federally authorized, deposit-taking trust companies operate in B.C.
- Greater reliance on the primary regulator for solvency regulation of insurance companies.
- The harmonization of insurance-related market conduct regulation with that of other jurisdictions.
- Revised legislative roles for the Minister, Commission and Superintendent, to make the Commission the primary regulatory authority.
- Greater enforcement authority for both FICOM and the Insurance Council.
- New provisions for the extra-provincial operation of credit unions.

Review of the Real Estate Act

The review of the *Real Estate Act* culminated with the introduction of two replacement statutes: the *Real Estate Services Act* and the *Real Estate Development Marketing Act*.

The *Real Estate Services Act* gives direct jurisdiction over licensees to the Real Estate Council of British Columbia, creates a compensation fund to protect consumers, and introduces a new licensing requirement for strata property managers.

The *Real Estate Development Marketing Act* allows greater innovation in marketing real estate developments, enhances consumer protection and reduces regulatory burden.

Organizational Goal 7: Streamline and harmonize regulations with other jurisdictions.

Performance Measure	2002-2003	2003-2004	Comments
Chair Canadian Council of Insurance Regulators' working group on Streamlining and Harmonization.	Proposals were received from stakeholders and reviewed by CCIR committees.	Final recommendations from the working group were submitted.	Work is continuing on some high-priority proposals under other CCIR working groups.
Classes of Insurance Project.	CCIR recommended establishment of 16 streamlined classes of insurance.	Individual jurisdictions began adopting the new classes.	The federal government and the Quebec government are jointly reviewing the class definitions. FICOM is awaiting the outcome of this process before it asks the B.C. Government to implement them.

Discussion:

Working Group on Streamlining and Harmonization

In 2002, the Canadian Council of Insurance Regulators (CCIR) assigned a working group to consider proposals for the streamlining and harmonization of regulatory requirements between jurisdictions. The committee received more than 60 proposals. Work continues with industry on high- priority proposals under three other working groups:

- Insurance agency and licensing issues;
- Market conduct issues; and
- Information sharing and solvency regulation issues.

Classes of Insurance

Classes of insurance are established under the specific insurance legislation in each Canadian regulatory jurisdiction. These classes have three purposes:

- They can be used to restrict the business authorization of an insurer to particular business activities;
- They help ensure adequate financial reporting (insurance companies must maintain separate accounts for each class of insurance); and
- They define the particular *Insurance Act* legislative provisions that apply to contracts of insurance between an insurer and a policy holder.

In British Columbia, classes of insurance are defined by regulation under the *Insurance Act*, but apply to that legislation and the *Financial Institutions Act*. In 1999, following requests from the Canadian insurance industry, CCIR initiated a project to reduce the number of classes of insurance and to harmonize the definitions across jurisdictions. At that time, approximately 75 classes existed across Canada. Those have now been consolidated into 16 classes.

Model classes developed and approved by CCIR in 2003 have been adopted by Ontario. The federal government and Quebec are currently completing a bi-jural drafting review of the definitions. When this review is completed, it is expected that the model classes will be adopted by all jurisdictions.

Further Activities - Pensions

In addition to the above activities involving insurance, FICOM made steps to streamline and harmonize pension regulation with other jurisdictions this past year, although plans to do so were not itemized in the service plan. These steps included:

- **Changes to Life Income Funds** - The detailed changes announced to Life Income Funds include a number of provisions to harmonize pension standards in British Columbia with those of other provinces.

- **Participation in the Canadian Association of Pension Supervisory Authorities ("CAPSA")** - The focus of CAPSA's activities is the harmonization of pension regulation in Canada. FICOM staff participated on a number of CAPSA committees during this past year and attended both semi-annual meetings.

- **Participation in Developing a Model Pensions Law** - A CAPSA project that is of particular interest to FICOM is the development of a model pension law. Once developed, this law will serve as the basis for harmonizing pension statutes and regulations across Canada.

Organizational Goal 8: Provide information to assist the public in detecting fraudulent or other inappropriate business practices.

Performance Measure	2002-2003	2003-2004	Comments
Develop a Communications Plan.	A communications strategy was completed but required redrafting for release as a communications plan.	Communications plan completed.	See discussion below.

Discussion:

The Communications Plan to meet core review commitments was completed and implementation began.

The plan identified changes to the FICOM website, stakeholder communications, service plan reporting and the operational procedures for addressing consumer complaints about regulated financial services providers.

In each case, the relevant issues were identified, a comparison between status quo practices and future practices was provided, and the staff member accountable for implementing the required changes was listed.

The implementation of this communications plan is ongoing: the FICOM website is being professionally upgraded and new communications materials are being developed. In tandem with the implementation of the communications plan, a new call centre is being created at FICOM to have consumer and industry complaints about financial services providers addressed by a single work team.

Organizational Goal 9: Develop a human resources plan to resolve staffing issues and recruitment problems.

Performance Measure	2002-2003	2003-2004	Comments
Develop a human resources Plan.	Plan completed.	Plan implemented.	See discussion below.

Discussion:

In 2003, FICOM developed a human resources plan to better link individual performance to FICOM's service plan and its business needs.

The plan called for three key initiatives:

1. Alignment of organizational goals and objectives with staff functions and accountabilities;
2. Improved training to meet the evolving requirements of financial services regulators; and,
3. Increased attention to internal communications, including greater feedback on both management and staff performance.

A number of activities were undertaken as part of these initiatives.

- FICOM implemented a "360-degree" evaluation process for its executive staff, which provides confidential feedback on their performance.
- FICOM had a firm review the organizational structure of FICOM and corresponding accountabilities of staff.
- Meetings between the CEO and all staff were held to address internal management issues.
- FICOM attempted to adjust job classifications to make it more competitive in hiring skilled, professional staff.
- FICOM implemented the new government-wide performance management initiative entitled Employee Performance and Development Plan.

Organizational Goal 10: Develop and implement new systems to meet FICOM's information needs as a risk-based regulatory framework is introduced.

Performance Measure	2002-2003	2003-2004	Comments
Complete workflow analysis, develop applications, and document new processes.	Phase 1 workflow analysis completed.	System design activities postponed.	See discussion below.

Discussion:

Following the Phase 1 workflow analysis completed in the previous year, FICOM management postponed the original Phase 2 systems design work to allow for further strategic systems planning activities.

Although FICOM has a modest staffing level of 90 FTEs, it has four core business areas that oversee six regulated sectors. Each of these six sectors has unique data requirements that new systems must address: the regulatory reporting requirements of insurance companies, pension plans, mortgage brokers, real estate developers and credit unions are all quite unique. Credit union and trust company requirements do overlap substantially.

A key systems design issue is whether each business area needs a stand-alone system or if a single system can be developed that meets all necessary user requirements within budget constraints. A further consideration is the interface with regulated sectors and the ease with which online reporting can be completed.

Prior to completing further systems design work, FICOM is internally reviewing its business processes and its organizational structure.

Organizational Goal 11: Review current real estate and mortgage broker related fees.

Performance Measure	2002-2003	2003-2004	Comments
Completion of reviews.	Fee reviews initiated.	New fee structures proposed and accepted by the Provincial Cabinet. Reviews completed.	In addition to completing reviews of real estate and mortgage broker fees, a review of strata property fees was also completed.

Discussion:

FICOM completed reviews of its fees under the *Real Estate Act* and *Mortgage Brokers Act* in response to its service plan objectives. FICOM also completed a review of *Strata Property Act* fees in 2003/04.

BC government organizations must receive approval from the Government Caucus Committee on Government Operations ("CCGO") for all fee changes. FICOM prepared Revenue Issue Papers detailing proposed increases for the fees under all three statutes and FICOM staff appeared before the CCGO to explain the changes and answer questions from MLA's on the proposed fee changes.

Real Estate Act Fees

New real estate fees were required because the previous fee schedule no longer fully covered the costs of services provided to real estate developers. The three key changes were:

- A new sliding scale for Disclosure Statements, Disclosure Statement exemptions, and Prospectuses;
- A single fee for amendments to Disclosure Statements and Prospectuses; and,
- A new service fee for photocopying documents on file.

The new *Real Estate Act* fees were approved in June 2003, with implementation effective May 1, 2004.

Mortgage Broker Act Fees

New mortgage broker fees were required because the previous fee schedule was outdated and FICOM is facing increased mortgage broker-related expenses. FICOM faces greater investigative costs for alleged statutory breaches because of the increasing complexity of mortgage fraud schemes. FICOM is receiving significantly more complaints of mortgage-related fraud. FICOM is incurring greater legal expenses under a new funding model for the Legal Services Branch of the Ministry of Attorney-General.

The new fee structure includes:

- A new, one-time fee for each additional business address;
- A new fee for amendments to registrations;
- A new fee for each day that registration renewal forms and financial information are late;
- Amended fees for the registration of mortgage brokers and sub-mortgage brokers; and,
- Amended fees for the renewal of mortgage broker and sub-mortgage broker registrations.

The new fee schedule was approved in June 2003, with implementation effective June 1, 2004.

Strata Property Act Fees

New *Strata Property Act* fees were required because of regulatory changes effective with the proclamation of the *Strata Property Act* and the repeal of the *Condominium Act*. Under the new regulatory model, only complex developments are reviewed; these approvals require considerable work by professional staff at FICOM. The revised fee structure better offsets the costs of reviewing complex developments.

The new fee structure provided many refinements to the fee schedule and modest fee increases. It was approved in March 2003, with implementation effective July 2003.

Organizational Goal 12: Develop new outcome, output and efficiency measures for core business areas.

Performance Measure	2002-2003	2003-2004	Comments
Produce list of measures.	Research conducted.	A comprehensive review of organizational goals and performance measures was completed.	The new service plan is available on FICOM's website. See discussion below.

Discussion:

The service plan for 2004/2005 to 2006/2007 was published in February 2004, following a comprehensive review of FICOM's organizational goals and corresponding performance measures.

The 12 goals discussed in this annual report and published in the prior service plan were reviewed and condensed, with five organizational goals identified as replacements. A new, sixth goal was identified that expressly addresses administrative effectiveness and efficiency.

The new organizational goals are:

Goal 1: British Columbians have confidence in credit unions and trusts because they are effectively regulated.

Goal 2: British Columbians have confidence in insurers because they are effectively regulated.

Goal 3: British Columbians have confidence in provincial pension plans because they are effectively regulated.

Goal 4: British Columbians have confidence in mortgage brokers because they are effectively regulated, and British Columbians are satisfied with FICOM's administration of its real estate responsibilities.

Goal 5: The investigative activities of FICOM deter non-compliance with statutes and criminal activities related to financial services in British Columbia.

Goal 6: FICOM is administratively effective and efficient.

The existing performance measures were revamped, with confidence indices identified as performance measures for the first three goals. These indices provide a weighted, multivariate measure of FICOM's achievement against the corresponding organizational goals. New performance measures for the last three goals were also identified.

These new organizational goals and the reliance on confidence indices for performance measurement will result in substantial changes in the content and format of future annual reports. This annual report for 2003/04 will be the last in this particular format.

As part of FICOM's strategic planning exercises in 2004, further output and efficiency measures will be identified and published in the next service plan.

FICOM Financial Report

FICOM expenditures are fully recovered from fees and assessments, and total expenditures have remained quite stable throughout the past decade.

Funding for FICOM is provided in the provincial government main estimates (the Budget) for the Ministry of Finance. A nominal net expense of $1,000 is authorized. This funding mechanism requires that FICOM's expenditures be recovered from fees and assessments.

In 2003/2004, FICOM's gross actual expenditures were $7.85 million, $727,000 under budget. Approximately 81 percent of the expenditures were for staff and professional services.

Actual recoveries were $9.31 million in 2003/2004. These recoveries were comprised of transfers from CUDIC for expenditures incurred by FICOM for credit union deposit insurance, supervision and stabilization matters ($1.7 million), and annual licensing fees and assessments ($7.6 million).

Both expenditures and recoveries increased significantly because of the transfer of the Pension Standards Branch to FICOM, effective April 1, 2003. A new requirement for FICOM to fund legal services provided by the Ministry of Attorney-General also increased expenditures.

In total, FICOM generated an excess of recoveries over expenditures of $1.46 million during 2003/2004. These funds were transferred to the provincial government's Consolidated Revenue Fund (CRF) to offset government overheads that are not fully accounted for in FICOM's budget. This transfer is identified as the CRF Contribution on the following chart.

FICOM - 15 Year Financial Summary ($ millions - actuals)

	89/90	90/91	91/92	92/93	93/94	94/95	95/96	96/97	97/98	98/99	99/00	00/01	01/02	02/03	03/04
Revenues	$5.37	$5.27	$6.26	$7.18	$7.70	$7.60	$7.46	$7.36	$7.34	$7.31	$7.35	$7.49	$7.38	$7.73	$9.31
Expenses	$7.84	$6.64	$6.64	$6.13	$5.69	$6.10	$5.78	$5.66	$5.38	$5.85	$6.05	$6.81	$6.31	$6.40	$7.85
CRF Contribution	$2.47	-$1.37	-$0.38	$1.05	$2.01	$1.50	$1.68	$1.71	$1.96	$1.45	$1.31	$0.68	$1.07	$1.33	$1.46

Operational Statistics

In addition to tracking its performance against identified organizational goals, FICOM also monitors and tracks its many regulatory activities. The statistics below are listed effective March 31, the last day of the B.C. government's fiscal year, unless otherwise noted.

Regulation of Financial Institutions

Authorized Financial Institutions in British Columbia	**2001/2002**	**2002/2003**	**2003/2004**
Credit Unions	65	63	61
Central Credit Unions	2	2	2
Credit Union System Total Assets	$25.2 billion	$26.6 billion	$29.0 billion
BC Incorporated Trust Companies	5	5	5
Extra-Provincial Trust Companies	48	44	45
Trust Company Total Deposits in B.C.	$8.1 billion	$6.8 billion	$6.2 billion
Trust Company Total Assets Under Administration in B.C.	$103.9 billion	$99.9 billion	$107.6 billion
B.C. Incorporated Insurance Companies	9	9	9
Extra-Provincial Insurance Companies	246	237	234
Insurance Premiums Written in B.C. (excluding ICBC)	$4.24 billion	$4.51 billion	$4.77 billion
Regulatory Activities	**2001/2002**	**2002/2003**	**2003/2004**
Business Authorization Applications for Trust Companies – Approved	7	1	1
New Business Authorizations of Insurance Companies – Approved	5	6	5
New Authorized Reciprocal Exchanges – Approved	0	0	0
Revocation of Extra-provincial Insurance Company Authorizations – Approved	12	12	8
Amalgamations of Extra-Provincial Insurance Companies	5	3	4
Credit Union Amalgamations (Mergers)	6	2	2
Credit Unions Under Supervision	2	3	4
Credit Union Examinations/Reviews Under The Financial Institutions Act *	75	64	61
Investment and Lending Policy Changes – Reviewed	127	123	110
Credit Union Regulatory Approvals and Filings	502	517	460

*The old system of examinations has been modified with the introduction of a risk-based framework. The ongoing nature of this system has meant a switch in terminology from "examinations" to "reviews."

Regulation of Provincial Pension Plans

Provincial Pension Plans Information	2001/2002	2002/2003	2003/2004
Pension plans under supervision	878	853	838
Pension plan assets (market value) from most recent Annual Information Return	$57.8 billion	$56.5 billion	$60.2 billion
Active Plan Members	491,937	484,582	469,943
Pensioners	158,301	164,927	171,926
Members with deferred entitlements	116,330	122,303	119,555
Regulatory Activities	**2001/2002**	**2002/2003**	**2003/2004**
New plan registrations	29	24	22
Plan terminations approved	25	25	26
Plan amendments registered	588	452	304
Registered Savings Plan/Life Income Fund Contracts	266	264	268
Assignments completed	1,963	2,126	1,706
Regulatory Activities	**2001/2002**	**2002/2003**	**2003/2004**
Average fees per member	$1.56	$1.53	$1.54
Average fees per active member	$2.43	$2.43	$2.49
Average fees per $1,000 of plan assets	$0.0207	$0.0210	$0.0194

Notes:

1. The regulation of provincial pension plans was transferred to FICOM effective April 1, 2003.
2. Assets and membership figures for supervised pension plans are reported based on the most recent Annual Information Return ("AIRs") available. AIRs report calendar year-end information for supervised pension plans (e.g. December 31, 2002, data appears for FICOM's fiscal year 2002/03).
3. Estimates are included in the 2003/04 figures for 31 plans that have not yet filed their Annual Information Return for 2003.

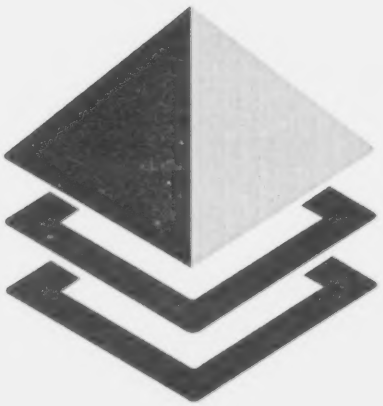
Mortgage Broker and Real Estate Regulation

Registered Mortgage Brokers	**2001/2002**	**2002/2003**	**2003/2004**
Mortgage Broker Companies	not available	465	494
Mortgage Broker Company Offices	568	596	645
Sub-mortgage Brokers	1,243	1,503	1,775
Mortgage Broker Regulation	**2001/2002**	**2002/2003**	**2003/2004**
New Mortgage Brokers Registrations	82	77	91
New Sub-Broker Registrations	286	410	488
Mortgage Broker Renewals	211	237	284
Sub-Mortgage Broker Renewals	398	475	519
Transfers	174	153	168
Terminations	254	173	288
Amendments	273	212	252
Real Estate Services	**2001/2002**	**2002/2003**	**2003/2004**
Prospectuses Accepted	15	17	19
Disclosure Statements	249	378	524
Disclosure Amendments	393	440	561
Real Estate Act Exemptions	6	10	11
Timeshare Amendments	27	29	20
Strata Property Services	**2001/2002**	**2002/2003**	**2003/2004**
Terminations	136	165	270
Information Requests	**2001/2002**	**2002/2003**	**2003/2004**
Letters	4,719	3,353	4,315
Telephone Calls	14,650	10,160	10,493

Investigations

Activities	2001/2002	2002/2003	2003/2004
Files open at the beginning of fiscal year	105	130	139
New files opened in the year with investigations initiated	209	242	224
Real estate investigations – initiated	87	90	78
Insurance investigations – initiated	52	38	40
Mortgage broker investigations – initiated	60	91	86
Credit union investigations – initiated	4	14	9
Trust company investigations – initiated	4	1	1
Pensions investigations – initiated	n/a	n/a	1
Miscellaneous investigations – initiated	2	8	9
Files closed	191	231	255
Real estate investigations – concluded	78	93	86
Insurance investigations – concluded	35	45	50
Mortgage broker investigations – concluded	66	76	102
Credit union investigations – concluded	4	9	9
Trust company investigations – concluded	6	1	1
Pension investigations – concluded	n/a	n/a	0
Miscellaneous investigations – concluded	2	7	7
Files open at the end of the fiscal year	123	140	108
Search warrants executed	9	31	13
Financial Institutions Act-related orders executed	8	18	14
Pensions Benefits Standards Act-related orders executed	n/a	n/a	1
Mortgage Brokers Act-related orders executed	14	33	50
Real Estate Act-related orders executed	6	24	7

Report on the Credit Union Deposit Insurance Corporation



Credit Union Deposit Insurance
Corporation of British Columbia

The Credit Union Deposit Insurance Corporation of British Columbia ("CUDIC") is a separate entity from the Financial Institutions Commission and is a statutory corporation under the *Financial Institutions Act*.

The mandate of CUDIC is to guarantee deposits and non-equity shares of depositors of British Columbia credit unions up to the limits prescribed by the *Financial Institutions Act*.

CUDIC Board of Directors	
Chair	J. Stewart Cunningham
Directors	Paul Taylor (*ex officio*)
Note: All positions listed effective March 31, 2004	

Details regarding deposit insurance coverage can be obtained by contacting FICOM or through FICOM's website.

To meet its deposit insurance responsibilities, CUDIC undertakes administrative and regulatory functions as set out in the *Financial Institutions Act*, makes deposit insurance payments and may provide financial assistance to credit unions. To maintain the deposit insurance fund, CUDIC is empowered to assess credit unions and to issue debentures.

No assessment for deposit insurance was made by CUDIC in 2003/2004.

Historically, a minimum fund of 57.5 basis points of total credit union deposits was identified as the requirement to meet CUDIC's obligations. The Fund Size Committee completed its review of the actuarial requirement of the deposit insurance fund this past year. The Committee's preliminary conclusion was that a fund of 85.0 basis points is required.

As at March 31, 2004, accumulated earnings of CUDIC were $116.8 million, or 43.9 basis points. In addition, the Stabilization Central Credit Union of British Columbia ("SCCU") has granted a security interest to CUDIC to meet the existing minimum fund requirement.

Review of Depositor Protection Agreement

During this past year, a review of the Depositor Protection Agreement between FICOM, CUDIC and SCCU was completed. This review addressed the history of the agreement, the legislated responsibilities of FICOM and CUDIC, and the functional responsibilities of FICOM, CUDIC and SCCU under the agreement. Based on this review, it was clear that the Depositor Protection Agreement was not in accord with the *Financial Institutions Act* (FIA) and needed to be revamped.

A key concern that arose from this review was that, under the FIA, the deposit insurance fund can not be segmented between CUDIC and another entity, such as SCCU. These findings were communicated to SCCU in the fall of 2003 and spring of 2004.

Financial Administration of CUDIC

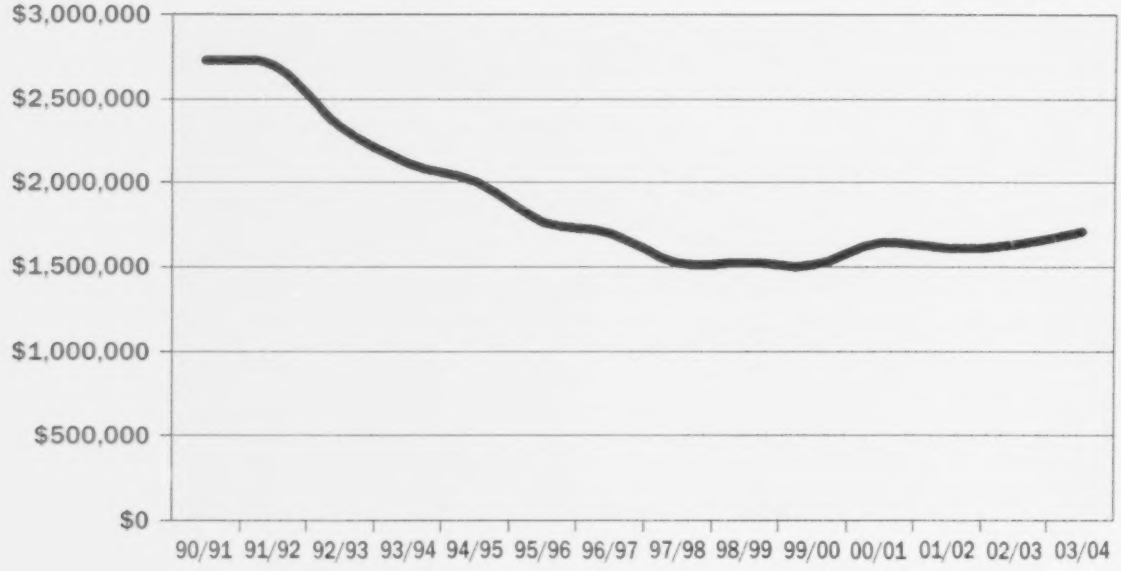
An annual budget is developed for CUDIC and approved by the CUDIC Board of Directors. CUDIC's day-to-day administrative functions are provided by FICOM, as CUDIC has no operating staff. CUDIC is then charged for administrative services by FICOM.

These administrative services are recorded as administration expenses by CUDIC and reported in the "Schedule of Administration Expenses" in financial statements. These expenses have been tightly controlled since 1990, as the following chart highlights.

This year, consulting and legal services are separately accounted for in CUDIC's financial statements. These items had previously been included in the administration expense. They are now separately recorded as "consulting services".

The chart that follows continues to report the administration expense and adds in consulting services for consistency of historical presentation and analysis.

CUDIC Administration Expenses



Auditors' Report on the Credit Union Deposit Insurance Corporation

Credit Union Deposit Insurance Corporation of British Columbia

Financial Statements

March 31, 2004

Grant Thornton

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Grant Thornton

Grant Thornton LLP
Chartered Accountants
Management Consultants

Grant Thornton

Auditors' Report

To the Board of Directors of
Credit Union Deposit Insurance Corporation of British Columbia

We have audited the balance sheet of Credit Union Deposit Insurance Corporation of British Columbia as at March 31, 2004, and the statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the corporation as at March 31, 2004, and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the Financial Institutions Act, we report that, in our opinion, these principles have been applied on a consistent basis with that of the preceding year.

Grant Thornton LLP

Vancouver, Canada
May 14, 2004

Chartered Accountants

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Credit Union Deposit Insurance Corporation of British Columbia
Balance Sheet

March 31	2004	2003
Assets		
Cash resources	$ 51,105	$ 100,550
Income taxes recoverable	-	218,984
Investments (Note 3)	117,201,490	111,380,319
	$ 117,252,595	$ 111,699,853
Liabilities and Retained Earnings		
Payables and accruals	$ 475,856	$ 363,589
Retained earnings (Note 5)	116,776,739	111,336,264
	$ 117,252,595	$ 111,699,853

Approved by the Board

Director Director

See accompanying notes to the financial statements

Credit Union Deposit Insurance Corporation of British Columbia

Statements of Operations and Retained Earnings

Year Ended March 31	2004	2003
Revenue		
Investments	$ 7,988,114	$ 6,397,174
Recoveries of assistance to credit unions	30,402	-
Assessments	-	4,628,392
	8,018,516	11,025,566
Expenses		
Administration (Schedule)	1,595,296	1,549,757
Consulting services	118,164	78,407
Assstance to credit unions	4,654	2,580
Investment management fees	157,286	146,175
	1,875,400	1,776,919
Earnings before income taxes	6,143,116	9,248,647
Income taxes (Note 4)	702,641	557,667
Net earnings	$ 5,440,475	$ 8,690,980
Retained earnings, beginning of year	$ 111,336,264	$ 102,645,284
Net earnings	5,440,475	8,690,980
Retained earnings, end of year	$ 116,776,739	$ 111,336,264

See accompanying notes to the financial statements

Grant Thornton

Credit Union Deposit Insurance Corporation of British Columbia
Statement of Cash Flows

Year Ended March 31	2004	2003
Cash flows provided by (used in)		
Operating activities		
Net earnings	$ 5,440,475	$ 8,690,980
Adjustments to determine cash flows:		
(Gain) loss on sale of securities	(1,460,314)	179,148
Change in non-cash working capital	331,251	(244,609)
	4,311,412	8,625,519
Investing activities		
Purchase of securities	(88,208,450)	(83,660,469)
Proceeds from sale of securities	83,847,593	73,237,280
	(4,360,857)	(10,423,189)
Net decrease in cash resources	(49,445)	(1,797,670)
Cash resources, beginning of year	100,550	1,898,220
Cash resources, end of year	$ 51,105	$ 100,550
Change in non-cash working capital		
Income taxes recoverable	$ 218,984	$ (218,984)
Payables and accruals	112,267	(25,625)
	$ 331,251	$ (244,609)
Supplemental cash flow information		
Income taxes paid	$ 673,371	$ 844,000

See accompanying notes to the financial statements

Credit Union Deposit Insurance Corporation of British Columbia
Notes to the Financial Statements
March 31, 2004

1. Governing legislation and operations

The Credit Union Deposit Insurance Corporation of British Columbia (CUDIC) is a statutory corporation established under the Financial Institutions Act (FIA) and is operated as a separate entity by the Financial Institutions Commission (FICOM). The mandate of CUDIC is to guarantee deposits and non-equity shares of depositors of British Columbia credit unions up to the limits prescribed by the FIA. To meet this mandate, CUDIC undertakes administrative and regulatory functions as set out in the FIA, makes deposit insurance payments and may provide financial assistance to credit unions. To maintain the deposit insurance fund, CUDIC is empowered to assess credit unions and to issue debentures to them.

The amount, timing and form of deposit insurance payments or financial assistance which may be required for credit unions is dependent on future events and outcomes. Three outcomes that may require assistance are rehabilitation, amalgamation or liquidation of credit unions. In the event of a liquidation, CUDIC's liability for deposit insurance is restricted to limits prescribed under the FIA.

Under the FIA, Stabilization Central Credit Union of British Columbia (Stabilization Central) has been designated a stabilization authority. Stabilization Central is a central credit union owned and controlled by the British Columbia credit union system. CUDIC may delegate specific responsibilities related to supervision of credit unions to Stabilization Central.

2. Significant accounting policies

Basis of presentation

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. In preparing these financial statements, management is required to make estimates and assumptions that could affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Investments

Securities are carried at amortized cost. Realized gains and losses on disposal are credited or charged to earnings for the year. Premiums and discounts arising at the time of purchase of investments are amortized over the period to maturity. Revenue from investments includes interest income as well as net realized capital gains or losses.

Credit Union Deposit Insurance Corporation of British Columbia
Notes to the Financial Statements
March 31, 2004

2. Significant accounting policies (Continued)

Provision for credit union assistance

CUDIC may provide assistance to credit unions in respect of deposit insurance and financial assistance. Specific provisions are established for financial assistance provided to a credit union and deposit insurance claims for a credit union in financial difficulty. Specific provisions are recorded when it is determined that assistance is likely required and the amount can be reasonably estimated. Amounts incurred in the current year and the specific provision accrual are charged to expenses as assistance to credit unions.

Related party transactions

CUDIC, a separate legal entity, is operated by FICOM, a commission of the British Columbia government. Administrative expenses relating to CUDIC's mandate are charged to CUDIC. The allocation of direct salaries to CUDIC is calculated based on the activities performed by FICOM staff on tasks pertinent to the mandate of CUDIC. Other expenses, including occupancy costs, are allocated to CUDIC according to CUDIC's proportionate share of activities. These transactions were conducted in the normal course of business at amounts established and agreed to by both parties.

Financial instruments

The market values of the investments approximate their fair values. The fair values of all other financial instruments, which include cash, income taxes recoverable, payables and accruals, approximate their carrying values.

Comparative figures

Certain of the prior years' figures have been reclassified to conform with the current year's presentation.

Credit Union Deposit Insurance Corporation of British Columbia
Notes to the Financial Statements
March 31, 2004

3. Investments

Specific Investments	Effective Yields	Less than one year	1 to 5 years	Over 5 years	Total 2004	Total 2003
Canadian	3.7	$ 6,844,741	$ 9,348,484	$ 24,083,474	$ 40,276,699	$ 48,179,266
Provincial	4.5	-	4,225,743	13,932,952	18,158,695	12,988,935
Municipal	4.3	-	759,526	2,269,979	3,029,505	3,044,416
Corporate	3.8	2,001,337	15,377,387	10,716,808	28,095,532	18,644,688
		$ 8,846,078	$ 29,711,140	$ 51,003,213	89,560,431	82,857,305
Pooled Funds						
Money Market Funds					514,704	515,749
Government Bond Fund					16,376,854	17,970,484
Corporate Bond Fund					9,177,963	8,568,603
					26,069,521	27,054,836
Accrued interest					1,571,538	1,468,178
Total investments (cost)					$ 117,201,490	$ 111,380,319
Total investments (market value)					$ 122,055,092	$ 112,875,556

The nature of pooled funds does not permit the determination of an effective yield.

4. Income taxes

CUDIC is a deposit insurance corporation for income tax purposes and pays income taxes on its taxable income at the statutory rate prescribed for deposit insurance corporations. Income for tax purposes excludes assessments made against credit unions. Also, no deduction may be made against income for tax purposes for financial assistance given to or paid on behalf of credit unions.

	2004	2003
Income taxes otherwise payable based on reported net earnings	$ 705,230	$ 1,247,065
Adjustments for effect of:		
Assessments against credit unions excluded from income for tax purposes	-	(623,907)
Other differences	(2,589)	(65,491)
Income taxes per financial statements	$ 702,641	$ 557,667

Credit Union Deposit Insurance Corporation of British Columbia
Notes to the Financial Statements
March 31, 2004

5. Depositor Protection Agreement

Stabilization Central, CUDIC and the Financial Institutions Commission have a Depositor Protection Agreement. Under this agreement, Stabilization Central and CUDIC shall maintain a minimum level of equity equal to 0.275% and 0.30%, respectively, of total member deposits held by British Columbia credit unions, or 0.575% in total.

If CUDIC's equity falls below 0.30%, CUDIC may rely on the financial resources of Stabilization Central to replenish its fund to the 0.30% level. Stabilization Central has provided CUDIC with security over its investment portfolio in support of this obligation.

The CUDIC fund equity represented 0.44% of member deposits held by British Columbia credit unions at December 31, 2003. The Stabilization Central fund equity continued well in excess of its 0.275% minimum level.

The agreement is currently being renegotiated. The outcome of this process is unknown, although it is known that the current agreement will not be continued.

Credit Union Deposit Insurance Corporation of British Columbia
Schedule of Administration Expenses

Year Ended March 31	2004	2003
Salaries and benefits	$ 1,257,909	$ 1,226,753
Directors expenses	2,661	3,664
Travel	34,277	43,486
Professional services	13,450	7,000
Information services	39,646	34,992
Building occupancy	124,938	123,946
Furniture and equipment	47,233	39,238
Other	75,182	70,678
	$ 1,595,296	$ 1,549,757

Market Conduct Complaints and Inquiries:

For general queries related to the financial services sector:

FINANCIAL INSTITUTIONS COMMISSION	Website: http://www.fic.gov.bc.ca
Telephone:	
Credit Unions/Deposit Insurance	604.660.2947
Trust Companies	604.660.2947
Pensions	604.660.2947
Insurance Inquiries	604.660.2971
Mortgage Brokers Inquiries	604.660.0135
Real Estate Inquiries	604.660.4831
Investigations	604.660.4223
E-mail Enquiries:	FICOM@gems9.gov.bc.ca
Mailing Address:	19th Floor, 1050 West Pender Street Vancouver, British Columbia V6E 3S7

Inquiries and complaints regarding a licensed real estate agent, salesperson or property manager:

REAL ESTATE COUNCIL OF BRITISH COLUMBIA	Website: http://www.recbc.ca
Telephone	604.683.9664
Toll Free	1.877.683.9664
Fax	604.683.9017
Mailing Address:	Suite 900 – 750 West Pender Street Vancouver, British Columbia V6C 2T8

Inquiries and complaints regarding a licensed insurance agent, adjuster or salesperson:

INSURANCE COUNCIL OF BRITISH COLUMBIA	**Website: http://www.insurancecouncilofbc.com**
Telephone	604.688.0321
Toll Free	1.877.688.0321
Fax	604.662.7767
Mailing Address:	Suite 300 – 1040 West Georgia Street Vancouver, British Columbia V6E 4H1

Inquiries and complaints regarding chartered banks:

OFFICE OF THE SUPERINTENDENT OF FINANCIAL INSTITUTIONS (CANADA)	**Website: http://www.osfi-bsif.gc.ca**
Telephone	604.666.5335
Fax	604.666.6717
Mailing Address:	Suite 305 – 1095 West Pender Street Vancouver, British Columbia V6E 2M6

Inquiries and complaints regarding the securities industry:

BRITISH COLUMBIA SECURITIES COMMISSION	**Website: http://www.bcsc.bc.ca**
Telephone	604.899.6500
Toll Free	604.899.6506
E-mail:	inquiries@bcsc.bc.ca
Mailing Address:	P.O. Box 10142 Pacific Centre 701 West Georgia Vancouver, British Columbia V7Y 1L2

Deposit Insurance and Compensation Plans:

Questions about deposit insurance and deposit- taking trust companies in British Columbia:

CANADA DEPOSIT INSURANCE CORPORATION	Website: http://www.cdic.ca
Telephone	613.992.7124
Toll Free	1.800.461.2342
Fax	613.996.6095
E-Mail:	info@cdic.ca
Mailing Address:	17th Floor – 50 O'Connor Street P.O. Box 2340, Station "D" Ottawa, Ontario K1P 5W5

Questions about deposit insurance and deposit- taking credit unions in British Columbia:

CREDIT UNION DEPOSIT INSURANCE CORPORATION OF BRITISH COLUMBIA	Website: http://www.fic.gov.bc.ca
Telephone (Enquiries)	604.660.2947
Fax	604.660.3170
Mailing Address:	Suite 1900 – 1050 West Pender Street Vancouver, British Columbia V6E 3S7

Most property and casualty insurance companies in Canada are required to be members of the industry insurance compensation program for insolvencies.

PROPERTY AND CASUALTY INSURANCE COMPENSATION CORPORATION	**Website: http://www.pacicc.com**
Telephone (Enquiries)	416.364.8677
Toll Free	1.888.564.9199
Fax	416.364.5889
E-Mail:	info@pacicc.com
Mailing Address:	Suite 210 – 20 Richmond Street East Toronto, Ontario M5C 2R9

Most British Columbia insurers that sell life, accident and sickness insurance to the public must be members of:

CANADIAN LIFE AND HEALTH INSURANCE COMPENSATION CORPORATION	**Website: http://www.compcorp.ca**
Telephone (Enquiries)	416.359.2001
Fax	416.955.9688
E-Mail:	info@compcorp.ca
Mailing Address:	Suite 1600 – 1 Queen Street Toronto, Ontario M5C 2X9

FICOM Contact Information

Financial Institutions Commission "FICOM"

Including:

- The Superintendent of Financial Institutions
- The Superintendent of Pensions
- The Superintendent of Real Estate
- Registrar of Mortgage Brokers
- Credit Union Deposit Insurance Corporation

Telephone	604.660.2947
Fax	604.660.3170
E-Mail:	FICOM@gems9.gov.bc.ca
Website:	http://www.fic.gov.bc.ca
Mailing Address:	Suite 1900 – 1050 West Pender Street Vancouver, British Columbia V6E 3S7

Visit our website: www.fic.gov.bc.ca